

City of Inkster, Michigan

Financial Report with Supplemental Information June 30, 2003

City of Inkster, Michigan

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Independent Auditor's Report

To the City Council
City of Inkster, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Inkster, as of and for the year ended June 30, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Inkster's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Inkster as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison schedules, and pension system schedules of funding progress and employer contributions, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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To the City Council
City of Inkster, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Inkster's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 13, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2002.

Plante & Moran, PLLC

November 10, 2003

City of Inkster, Michigan

Management's Discussion and Analysis

This section of the City of Inkster's annual financial report presents our discussion and analysis of the City of Inkster's financial performance during the fiscal year ended June 30, 2003. Please read it in conjunction with the financial statements that follow this section.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2003:

The financial statements for the year ended June 30, 2003 reflect complete implementation of Governmental Accounting Standards Board Statement (GASB) No. 34, which significantly changed the content and format of municipal financial reporting. Accordingly, these statements present both entity-wide financial reporting for all governmental and business activities in addition to reporting financial information at the fund level. A reconciliation of the net change in fund balances for the total governmental funds to the change in net assets is provided within the statements.

Property taxes are the City's largest source of revenue. The City's gross tax base, taxable value, for the fiscal year 2003 was \$276,408,505, which represents an increase of 4.6% over the prior fiscal year's taxable values. Although the taxable values showed an increase of 4.6%, due to the City's tax limitation (Headlee rollback), the General Fund tax revenues were limited to an increase of 2.2% over the prior year.

State-shared revenue, the second largest revenue source of the General Fund, was reduced by the State of Michigan from \$5,011,214 last fiscal year to \$4,775,367 during the current fiscal year. This represents a 4.7% reduction from the prior year.

To offset the increasing cost of fringe benefit packages and liability insurance, the City had to eliminate, through a retirement buyout package and layoffs, 15 positions for the 2004 fiscal year. With the elimination of these positions, elimination of capital improvements and purchases, and a reduction in pension contributions, the City was able to cut approximately \$1.7 million from the General Fund budget for the next fiscal year.

Using this Annual Financial Report

This annual financial report consists of a management's discussion and analysis (this section), the basic financial statements, and other required supplementary information. In the basic financial statements section are two sets of financial statements along with the notes to the financial statements.

The first set of financial statements are the new GASB 34 required government-wide financial statements, which include the statement of net assets and statement of activities on pages 10-12. These statements provide both the long- and short-term information about the City's overall financial status and are prepared on a full-accrual basis.

City of Inkster, Michigan

Management's Discussion and Analysis (Continued)

The second set of financial statements include the funds statements found on pages 13-23. These fund statements present a short-term view and tell how City services were financed during the year as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide information about activities for which the City of Inkster acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The Government-wide Financial Statements

The following table shows, in a condensed format, the government-wide net assets of the City as of June 30, 2003 and is compared to the prior year:

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Assets:						
Current assets	\$ 8,634,721	\$ 9,619,304	\$ 7,134,230	\$ 5,966,216	\$ 15,768,951	\$ 15,585,520
Restricted assets	4,661,047	-	949,751	1,048,776	5,610,798	1,048,776
Capital assets	13,436,443	13,511,067	30,503,885	31,196,959	43,940,328	44,708,026
Total assets	26,732,211	23,130,371	38,587,866	38,211,951	65,320,077	61,342,322
Liabilities:						
Current liabilities	5,120,758	3,187,357	2,760,994	2,426,499	7,881,752	5,613,856
Long-term liabilities	11,231,084	7,352,927	10,728,849	11,344,133	21,959,933	18,697,060
Total liabilities	16,351,842	10,540,284	13,489,843	13,770,632	29,841,685	24,310,916
Net assets:						
Invested in capital assets -						
Net of related debt	10,563,382	10,604,427	20,014,503	19,163,688	30,577,885	29,768,115
Restricted	2,778,679	2,726,579	118,118	118,118	2,896,797	2,844,697
Unrestricted (deficit)	(2,961,692)	(740,919)	4,965,402	5,159,513	2,003,710	4,418,594
Total net assets	\$ 10,380,369	\$ 12,590,087	\$ 25,098,023	\$ 24,441,319	\$ 35,478,392	\$ 37,031,406

As shown above, the City of Inkster's combined net assets decreased 4% from a year ago. Net assets decreased from \$37,031,406 to \$35,478,392.

City of Inkster, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the year ended June 30, 2003:

TABLE 2

	Governmental Activities 2003	Business-type Activities 2003	Total 2003
Revenue			
Program revenue:			
Charges for services	\$ 2,864,316	\$ 6,364,741	\$ 9,229,057
Operating grants and contributions	2,443,194	-	2,443,194
Capital grants and contributions	-	34,611	34,611
General revenue:			
Property taxes	6,762,105	1,101,647	7,863,752
State-shared revenue	4,787,073	-	4,787,073
Unrestricted investment earnings	97,925	30,066	127,991
Franchise fees	189,135	-	189,135
Miscellaneous	155,796	-	155,796
Total revenue	17,299,544	7,531,065	24,830,609
Program Expenses			
General government	4,866,955	-	4,866,955
Public safety	9,500,940	-	9,500,940
Public works	4,073,906	-	4,073,906
Recreation and culture	949,183	-	949,183
Interest on long-term debt	118,278	-	118,278
Water and sewer	-	6,874,361	6,874,361
Total program expenses	19,509,262	6,874,361	26,383,623
Change in Net Assets	\$ (2,209,718)	\$ 656,704	\$ (1,553,014)

Governmental activities include the City's General Fund and Major and Local Street Funds and other governmental funds. These funds account for all general government activities.

City of Inkster, Michigan

Management's Discussion and Analysis (Continued)

The City's total governmental revenues decreased \$407,200. This amount represents a 2.3% decrease and is due primarily to decreases in revenue sharing, interest income, and grant revenues. These decreases in revenues were offset partially by increases in property taxes and charges for services as shown below:

	<u>Increase (Decrease)</u>
State revenue sharing	\$(235,291)
Investment earnings	(123,419)
Grants and contributions	(438,046)
Property taxes	135,784
Charges for services	258,195
Franchise fees	(52,664)
Miscellaneous revenues	<u>48,221</u>
Total decrease	<u>\$(407,220)</u>

Business-type activities are comprised of the Utility Fund. This fund accounts for the water and sewage disposal services provided to City of Inkster residents. Water is purchased from the City of Detroit Water System and sewage treatment and disposal is provided by the Wayne County Rouge Valley Sewage Disposal System.

Charges to the City by Detroit for water and Wayne County for sewage treatment and disposal along with the City's operational and maintenance costs are reviewed annually to set the water and sewer rates for the fiscal year. Due to increases in charges by Detroit and Wayne County of 14.48% for water and 10.05% for sewer that went into effect July 1, 2002, water rates had to be increased to Inkster customers by 7%.

During the year, the Utility Fund had an overall increase in net assets of \$656,704.

Fund Financial Statements

Our analysis of the City's major funds refers to the fund financial statements which begin on page 13. The fund financial statements provide detail information about the most significant funds. The City's funds are created to manage money earmarked for specific purposes as well as to show accountability for certain activity. The major funds for fiscal year ended June 30, 2003 include the General Fund, Major Street Fund, and the Local Street Fund.

The General Fund accounts for most of the City's governmental services including public safety, public works, recreation, library, and general government. The Major and Local Street Funds account for funds required by statute for use on maintenance of major and local streets within the City.

City of Inkster, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Before beginning the discussion on the General Fund budget, review the following table. This table shows the prior year actual results, the original budget, the amended budget, the current year actual results, and the budget for the next year.

	FY02 ACTUAL	FY03 ORIGINAL BUDGET	FY03 AMENDED BUDGET	FY03 ACTUAL	FY04 ORIGINAL BUDGET
REVENUES:					
Property Taxes	6,474,155	6,655,000	6,655,000	6,619,040	6,925,000
Licenses/Permits	287,826	391,700	249,000	196,324	249,000
Federal Grants	-	-	26,000	26,368	25,000
State Revenues/Grants	5,316,057	5,020,000	4,964,200	4,903,802	4,921,400
Charges for Services	1,576,226	1,846,500	1,637,200	1,744,623	1,669,000
Interest Earnings	170,330	200,000	75,000	61,885	75,000
Admin Charges/Other	1,296,994	1,537,000	1,516,000	1,421,595	1,615,500
Transfer from Garage Fund	-	300,000	300,000	300,000	300,000
TOTAL REVENUES	15,121,588	15,950,200	15,422,400	15,273,637	15,779,900
EXPENDITURES:					
General Government	2,367,687	2,610,619	2,454,496	2,440,591	2,231,000
Public Safety	7,423,697	7,422,230	7,205,804	7,165,655	6,550,000
Public Works	2,378,501	2,844,368	2,712,519	2,670,925	2,628,000
Recreation/Library	805,484	899,825	865,599	753,686	706,000
Non-departmental (see below)	3,878,955	3,133,825	4,242,898	3,832,051	3,692,000
TOTAL EXPENDITURES	16,854,324	16,910,867	17,481,316	16,862,908	15,807,000
USE OF FUND BALANCE	(1,732,736)	(960,667)	(2,058,916)	(1,589,271)	(27,100)
NON-DEPARTMENTAL EXPENDITURES DETAIL:					
Group Health Insurance	1,420,500	1,500,000	1,807,500	1,742,861	1,910,000
Liab. Insurance & Settlements	550,099	400,000	555,184	492,704	600,000
Workers' Compensation	434,757	270,000	244,000	396,565	254,000
Uncollectible Taxes	435,447	100,000	450,000	11,506	400,000
Capital Improvements	214,221	-	395,050	350,768	-
Other	823,931	863,825	791,164	837,647	528,000
	3,878,955	3,133,825	4,242,898	3,832,051	3,692,000

As shown, during FY02 the actual revenues were \$15,121,588, which was \$1,732,736 short of expenditures of \$16,854,324.

City of Inkster, Michigan

Management's Discussion and Analysis (Continued)

The original FY03 budget projected revenues at \$15,950,200 and expenditures at \$16,910,867. The original budget projected a use of fund balance of \$960,667.

Shortly after mid-year, it became apparent that the projected increases in revenues for permits and court revenues would not be achieved and that the projected interest income would not be achieved due to the continued decrease in interest rates. The budget was amended to decrease the projected revenues by \$527,800 from \$15,950,200 to \$15,422,400.

During the mid-year review, it was also apparent that expenditures would be more at originally projected due to increases in health and general liability insurance rates, capital improvements which had become necessary during the year that had not been budgeted for, unexpected increases in overtime for the fire department, estimate for uncollectible taxes, and other increases in costs.

To offset some of these increases which were generally in the non-departmental accounts, each department budget was cut by 7% where possible. The budget for expenditures was increased by \$570,449 from \$16,910,867 to \$17,481,316.

Although the original budget projected a use of fund balance of \$960,667, with the decrease in projected revenues of \$527,800 and increase in projected expenses of \$570,449, it was now projected that the use of fund balance would be \$2,058,916.

The actual results for the year were \$476,645 more favorable than anticipated. Although the actual revenues for the year were \$148,763 less than anticipated (budget \$15,422,400 and actual \$15,273,637), the actual expenses were \$618,408 less than anticipated (budget \$17,481,316 and actual \$16,862,908). Thus, instead of a use of fund balance of \$2,058,916, the actual use of fund balance for the year was \$1,589,271.

Capital Asset and Debt Administration

As shown in the statement of net assets (page 10) and detailed in Note 5 (page 36) at the end of fiscal year 2003, the City (excluding the component units) had \$43,940,328 (net of depreciation) invested in capital assets. These assets include land and buildings, police and fire vehicles and equipment, the city fleet, streets, sidewalks, playgrounds, water and sewer lines, CSO basin, etc. The debt related to the acquisition and construction of these assets at June 30, 2003 was \$18,973,241, with \$1,576,652 of this debt due to be paid within the next year. A detailed listing of all City debt can be found in Note 7 (page 40).

During the year, the long-term debts of the City increased by approximately \$4 million. This was due primarily to the issuance of bonds for local street improvements.

City of Inkster, Michigan

Management's Discussion and Analysis (Continued)

In November 2002, the residents of the City of Inkster overwhelmingly voted for an additional tax levy for debt service on \$15,000,000 in bonds to be issued over the next 10 years for financing local street improvements. The first series of bonds in the amount of \$5,000,000 were issued in March 2003. An assessment of the condition of all local streets within the City was used to prioritize the streets to be resurfaced. The improvement program began in April 2003.

In August 2002, the City refunded utility bonds outstanding which were originally issued in 1992 to take advantage of the lower bond interest rates. The defeased debt will generate a savings of approximately \$20,000 over the next five years.

Economic Factors and Next Year's Budget

The fiscal year 2004 budget projects revenues at approximately \$15,779,900 and expenditures at \$15,807,000. The budgeted revenues project a continued decrease in state revenue sharing, a small increase in property taxes at the inflation rate, and no increase in interest rates for the FY04 fiscal year.

The goal of the fiscal year 2004 budget is to bring expenditures back in line with the City's limited resources without the use of fund balance. With two consecutive years of decreasing revenues and increasing costs, the fund balance for the General Fund decreased from \$4,435,524 at June 30, 2001 to \$1,113,517 at June 30, 2003. With projected revenues of approximately \$15,779,900 for fiscal year 2004, the administration was faced with how to reduce General Fund expenditures to the same level.

The fiscal year 2004 General Fund expenditures are projected to be \$15,807,000 for FY03-04. This required a reduction of approximately \$1.7 million (9.6%) in expenditures from the FY02-03 amended budget. The administration had to make very difficult decisions with respect to service cuts, position eliminations, employee development, and training programs while still maintaining basic city services. To accomplish this goal, 15 full-time positions were cut from the budget, capital improvements and vehicle purchases were eliminated, and the City's pension contribution was reduced. There is generally a reduction in every department's total personnel service costs due to the positions eliminated and reduction in pension contributions.

The fiscal year 2004 budget will be reviewed and amended as needed on a quarterly basis. As we are now near the end of the second quarter, the administration is preparing for the second quarter budget amendment recommendations. Due to the better than expected performance for fiscal year 2003, Administration will be proposing some budget amendments, taking the fiscal year 2003 actual performances into consideration.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office.

City of Inkster, Michigan

Statement of Net Assets June 30, 2003

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 5,968,533	\$ 1,279,060	\$ 7,247,593	\$ 394,205
Receivables - Net:				
Customers	-	4,226,323	4,226,323	-
Taxes receivables	902,365	-	902,365	-
Long-term receivable from TIFA (Note 4)	1,559,560	-	1,559,560	-
Other	18,705	-	18,705	6,254
Internal balances (Note 6)	(1,148,206)	1,148,206	-	-
Due from primary government	-	-	-	8,048
Due from component units	52,519	-	52,519	-
Due from other governmental units	1,266,767	-	1,266,767	-
Inventories	14,478	141,943	156,421	-
Deferred bond issuance costs	-	338,698	338,698	-
Restricted assets (Note 8)	4,661,047	949,751	5,610,798	-
Capital assets - Net (Note 5)	13,436,443	30,503,885	43,940,328	-
Total assets	26,732,211	38,587,866	65,320,077	408,507
Liabilities				
Accounts payable	1,701,157	1,812,798	3,513,955	6,546
Accrued and other liabilities	897,252	237,912	1,135,164	-
Deferred revenue (Note 4)	170,830	-	170,830	-
Due to primary government	-	-	-	52,519
Due to component units	4,425	-	4,425	-
Debt - Due within one year (Note 7)	866,368	710,284	1,576,652	182,500
Other noncurrent liabilities - Due within one year	1,265,575	-	1,265,575	-
Noncurrent liabilities:				
Estimated workers' compensation and other claims	3,041,479	-	3,041,479	-
Accrued retired police and fire employee benefits	215,151	-	215,151	-
Accrued employee benefits	803,865	-	803,865	-
Estimated property tax chargebacks	718,000	-	718,000	-
Debt - Due in more than one year (Note 7)	6,667,740	10,728,849	17,396,589	3,157,060
Total liabilities	16,351,842	13,489,843	29,841,685	3,398,625
Net Assets				
Invested in capital assets - Net of related debt	10,563,382	20,014,503	30,577,885	-
Restricted:				
Local and major streets	2,513,380	-	2,513,380	-
Drug forfeiture	239,751	-	239,751	-
Debt service	65	-	65	-
Capital projects	25,483	-	25,483	-
Environmental Protection Agency (Note 8)	-	118,118	118,118	-
Unrestricted	(2,961,692)	4,965,402	2,003,710	(2,990,118)
Total net assets	\$ 10,380,369	\$ 25,098,023	\$ 35,478,392	\$ (2,990,118)

City of Inkster, Michigan

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 4,866,955	\$ 2,259,994	\$ 311,977	\$ -
Public safety	9,500,940	565,358	479,672	-
Public works	4,073,906	-	1,651,545	-
Recreation and culture	949,183	38,964	-	-
Interest on long-term debt	118,278	-	-	-
Total governmental activities	19,509,262	2,864,316	2,443,194	-
Business-type activities - Water and sewer	6,874,361	6,364,741	-	34,611
Total primary government	<u>\$ 26,383,623</u>	<u>\$ 9,229,057</u>	<u>\$ 2,443,194</u>	<u>\$ 34,611</u>
Component units:				
Beech Daly Tax Increment Finance Authority	\$ 183,317	\$ -	\$ -	\$ -
Brownfield Authority	52,519	-	-	-
Downtown Development Authority	174,471	-	-	-
Total component units	<u>\$ 410,307</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Franchise fees				
Miscellaneous				
Total general revenues, special items, and transfers				
Change in Net Assets				
Net Assets - July 1, 2002				
Net Assets - June 30, 2003				

Statement of Activities Year Ended June 30, 2003

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (2,294,984)	\$ -	\$ (2,294,984)	\$ -
(8,455,910)	-	(8,455,910)	-
(2,422,361)	-	(2,422,361)	-
(910,219)	-	(910,219)	-
(118,278)	-	(118,278)	-
(14,201,752)	-	(14,201,752)	-
-	(475,009)	(475,009)	-
(14,201,752)	(475,009)	(14,676,761)	-
-	-	-	(183,317)
-	-	-	(52,519)
-	-	-	(174,471)
-	-	-	(410,307)
6,762,105	1,101,647	7,863,752	606,284
4,787,073	-	4,787,073	-
97,925	30,066	127,991	5,012
189,135	-	189,135	-
155,796	-	155,796	-
11,992,034	1,131,713	13,123,747	611,296
(2,209,718)	656,704	(1,553,014)	200,989
12,590,087	24,441,319	37,031,406	(3,191,107)
\$ 10,380,369	\$ 25,098,023	\$ 35,478,392	\$ (2,990,118)

City of Inkster, Michigan

Governmental Funds Balance Sheet June 30, 2003

	General Fund	Major Streets	Local Streets	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments	\$ 2,340,937	\$ 2,207,277	\$ 467,122	\$ 310,651	\$ 5,325,987
Receivables - Net:					
Taxes receivables	902,365	-	-	-	902,365
Long-term receivable from TIFA	-	1,559,560	-	-	1,559,560
Other	18,705	-	-	-	18,705
Restricted assets (Note 8)	-	-	4,661,047	-	4,661,047
Due from other funds	528,212	-	-	266,398	794,610
Due from component unit	52,519	-	-	-	52,519
Due from other governments	743,214	192,797	81,686	243,356	1,261,053
Inventories	5,307	-	-	-	5,307
Total assets	<u>\$ 4,591,259</u>	<u>\$ 3,959,634</u>	<u>\$ 5,209,855</u>	<u>\$ 820,405</u>	<u>\$ 14,581,153</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 1,295,904	\$ 7,399	\$ 319,415	\$ 57,934	\$ 1,680,652
Accrued and other liabilities	779,390	-	-	-	779,390
Due to other funds	1,302,023	20,000	88,688	422,342	1,833,053
Due to component unit	4,425	-	-	-	4,425
Deferred revenue	96,000	1,559,560	-	74,830	1,730,390
Total liabilities	3,477,742	1,586,959	408,103	555,106	6,027,910
Fund Balances					
Reserved - Unspent bond proceeds in the Local Street Fund	-	-	4,661,047	-	4,661,047
Unreserved, reported in General Fund - Designated for property tax chargebacks	718,000	-	-	-	718,000
Unreserved, undesignated, reported in:					
General Fund	395,517	-	-	-	395,517
Special Revenue Funds	-	2,372,675	140,705	239,751	2,753,131
Debt Service Funds	-	-	-	65	65
Capital Projects Funds	-	-	-	25,483	25,483
Total fund balances	1,113,517	2,372,675	4,801,752	265,299	8,553,243
Total liabilities and fund balances	<u>\$ 4,591,259</u>	<u>\$ 3,959,634</u>	<u>\$ 5,209,855</u>	<u>\$ 820,405</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	12,383,955
Accounts receivable from the Tax Increment Finance Authority will be collected over several years, and are not available to pay for current year expenditures	1,559,560
General employee pension plan liability not paid in the current period and not reported in the funds	(102,252)
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(13,369,070)
Internal Service Funds are included as part of governmental activities	1,354,933
Net assets of governmental activities	<u>\$ 10,380,369</u>

City of Inkster, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2003

	General Fund	Major Street Fund	Local Street Fund	Other Governmental Funds	Total Governmental Funds
Revenue					
Property taxes	\$ 6,619,040	\$ -	\$ -	\$ 143,065	\$ 6,762,105
Licenses and permits	196,324	-	-	-	196,324
Federal grants	26,368	-	-	655,298	681,666
State revenues and grants	4,903,802	1,116,304	473,061	38,978	6,532,145
Charges for services	1,744,623	270,000	-	-	2,014,623
Interest	61,885	23,382	8,532	4,126	97,925
Administrative charges and other revenue	1,421,595	-	-	247,642	1,669,237
Total revenue	14,973,637	1,409,686	481,593	1,089,109	17,954,025
Expenditures					
Current:					
General government	2,440,591	-	-	-	2,440,591
Public safety	7,165,655	-	-	101,477	7,267,132
Highways, streets, and public works	2,670,925	568,423	1,321,876	-	4,561,224
Grant expenditures	-	-	-	694,276	694,276
Recreation and culture	753,686	-	-	-	753,686
Nondepartmental	3,832,051	-	-	162,113	3,994,164
Debt service	-	276,076	-	143,000	419,076
Total expenditures	16,862,908	844,499	1,321,876	1,100,866	20,130,149
Excess of Revenue Over (Under) Expenditures	(1,889,271)	565,187	(840,283)	(11,757)	(2,176,124)
Other Financing Sources (Uses)					
Transfers in	300,000	-	275,000	-	575,000
Transfers out	-	(275,000)	-	-	(275,000)
Proceeds from issuance of debt	-	-	5,000,000	-	5,000,000
Total other financing sources (uses)	300,000	(275,000)	5,275,000	-	5,300,000
Net Change in Fund Balances	(1,589,271)	290,187	4,434,717	(11,757)	3,123,876
Fund Balances - July 1, 2002	2,702,788	2,082,488	367,035	277,056	5,429,367
Fund Balances - June 30, 2003	<u>\$ 1,113,517</u>	<u>\$ 2,372,675</u>	<u>\$ 4,801,752</u>	<u>\$ 265,299</u>	<u>\$ 8,553,243</u>

City of Inkster, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds **\$ 3,123,876**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures;
in the statement of activities, these costs are allocated
over their estimated useful lives as depreciation:

Capital outlay	977,756
Depreciation expenses	(781,405)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	300,000
---	---------

Bond proceeds are not reported as financing sources on the statement of activities	(5,000,000)
---	-------------

Increase in estimated general liability claims	(277,628)
--	-----------

Retired police and fire sick and vacation pay to be paid over three years	(322,726)
---	-----------

Decrease in accrued employee sick and vacation pay	375,103
--	---------

Reimbursement from the TIFA for debt principal payments	(207,820)
---	-----------

Unfunded general employee pension obligation	(102,252)
--	-----------

Internal Service Funds are also included as governmental activities	<u>(294,622)</u>
--	------------------

Change in Net Assets of Governmental Activities **\$ (2,209,718)**

City of Inkster, Michigan

Proprietary Funds Statement of Net Assets June 30, 2003

	Enterprise - Water and Sewer	Internal Service Funds
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,279,060	\$ 642,546
Receivables - Net	4,226,323	-
Due from other funds	1,148,206	-
Due from other governmental units	-	5,714
Inventories	141,943	9,171
Deferred bond issuance costs	338,698	-
Total current assets	7,134,230	657,431
Noncurrent assets:		
Restricted assets	949,751	-
Capital assets	30,503,885	1,052,488
Total noncurrent assets	31,453,636	1,052,488
Total assets	38,587,866	1,709,919
Liabilities		
Current liabilities:		
Accounts payable	1,812,798	20,505
Accrued and other liabilities	213,672	15,610
Bonds and deposits	24,240	-
Due to other funds	-	109,763
Current portion of long-term debt	710,284	76,368
Total current liabilities	2,760,994	222,246
Noncurrent liabilities - Long-term debt -		
Net of current portion	10,728,849	132,740
Total liabilities	13,489,843	354,986
Net Assets		
Investment in capital assets - Net of related debt	20,014,503	843,380
Restricted	118,118	-
Unrestricted	4,965,402	511,553
Total net assets	<u>\$ 25,098,023</u>	<u>\$ 1,354,933</u>

City of Inkster, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2003

	Enterprise - Water and Sewer	Internal Service Funds - Garage Fund
Operating Revenue		
Water and sewer user charges	\$ 5,654,011	\$ -
Other charges for services	<u>710,722</u>	<u>1,133,000</u>
Total operating revenue	6,364,733	1,133,000
Operating Expenses		
Cost of water	1,120,474	-
Cost of sewage disposal	1,996,717	-
Wages and fringes	476,724	244,903
Operating supplies	24,038	191,734
Equipment rental	375,000	-
Contractual services	667,896	177,079
Repairs and maintenance	299,115	109,450
Insurance, claims, and other	150,000	61,093
Depreciation	839,079	338,815
Bad debts	42,856	-
Nondepartmental	<u>268,490</u>	<u>320</u>
Total operating expenses	<u>6,260,389</u>	<u>1,123,394</u>
Operating Income	104,344	9,606
Nonoperating Revenue (Expenses)		
Investment income	30,066	6,506
Interest expense	(613,964)	(14,235)
Gain on sale of equipment	-	3,501
Property taxes	<u>1,101,647</u>	<u>-</u>
Total nonoperating revenue (expenses)	<u>517,749</u>	<u>(4,228)</u>
Income - Before transfers and contributions	622,093	5,378
Operating Transfer Out	-	(300,000)
Capital Contributions	<u>34,611</u>	<u>-</u>
Change in Net Assets	656,704	(294,622)
Net Assets - July 1, 2002	<u>24,441,319</u>	<u>1,649,555</u>
Net Assets - June 30, 2003	<u>\$ 25,098,023</u>	<u>\$ 1,354,933</u>

City of Inkster, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2003

	Enterprise - Water and Sewer	Internal Service Funds - Garage Fund
Cash Flows from Operating Activities		
Receipts from customers	\$ 5,954,711	\$ -
Payments to suppliers	(4,262,601)	(545,263)
Payments to employees	(476,724)	(244,903)
Internal activity - Payments from (to) other funds	(1,007,707)	1,187,891
Net cash provided by operating activities	207,679	397,725
Cash Flows from Capital and Related Financing Activities		
Proceeds from property tax levy (restricted for debt service)	1,101,647	-
Purchase of capital assets	-	(67,840)
Proceeds from sale of equipment	-	3,501
Proceeds from issuance of debt	435,000	-
Principal and interest paid on capital debt	(1,643,102)	(86,767)
Net cash used in capital and related financing activities	(106,455)	(151,106)
Cash Flows for Non-Capital and Related Financing Activities -		
Transfer to other funds	-	(300,000)
Cash Flows from Investing Activities - Interest on investments	17,697	6,506
Net Increase (Decrease) in Cash and Cash Equivalents	118,921	(46,875)
Cash and Cash Equivalents - July 1, 2002	1,160,139	689,421
Cash and Cash Equivalents - June 30, 2003	\$ 1,279,060	\$ 642,546
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	\$ 104,344	\$ 9,606
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	839,079	338,815
Changes in assets and liabilities:		
Receivables	(410,022)	-
Due from other funds	(631,582)	10
Inventories	(37,155)	4,418
Deferred bond issuance costs	30,791	-
Accounts payable and accrued liabilities	313,349	(10,005)
Due to other funds	(1,125)	54,881
Net cash provided by operating activities	\$ 207,679	\$ 397,725

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2003, the following noncash activities occurred:

The Enterprise Fund received \$34,611 of federal EPA grant monies and spent \$95,512 for the Rouge River National Wet Weather Demonstration Project. This activity was administered by Wayne County and is recorded in the restricted assets held at Wayne County as described in Note 8. Interest of \$11,830 was earned on monies held at the County.

The Enterprise Fund spent \$50,493 of monies held at the County for the North Huron Valley/Rouge Valley Sewer System improvements and received \$539 in interest earnings as described in Note 8.

City of Inkster, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2003

	Pension and Other Employee Benefit Trust Funds	Agency Funds - Escrow Fund
Assets		
Cash and cash equivalents	\$ -	\$ 777,474
Investments:		
Corporate bonds	2,383,861	-
U.S. government securities	6,192,341	-
U.S. government agency securities	2,442,086	-
Common and preferred stock	6,601,497	-
Pension equity mutual funds	5,385,845	-
Pension guarantee contract pooled fund	7,054,905	-
Bank investment pools	456,393	-
Receivables - Accrued interest and other	249,242	-
	<u>30,766,170</u>	<u>\$ 777,474</u>
Liabilities		
Bonds and deposits	-	\$ 352,275
Due to component unit	-	3,623
Due to other governmental units	-	421,576
	<u>-</u>	<u>\$ 777,474</u>
Net Assets - Held in trust for employee pension benefits	<u>\$ 30,766,170</u>	

City of Inkster, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2003

	Pension and Other Employee Benefit Trust Funds
Additions	
Investment income:	
Interest and dividends	\$ 959,843
Net decrease in fair value of investments	<u>(261,988)</u>
Net investment income	697,855
Contributions:	
Employer	689,735
Employee	<u>361,071</u>
Total contributions	<u>1,050,806</u>
Total additions	1,748,661
Deductions	
Benefit payments	1,832,851
Refunds of contributions	151,697
Administrative expenses	<u>128,818</u>
Total deductions	<u>2,113,366</u>
Net Decrease	(364,705)
Net Assets Held in Trust for Pension and Other Employee Benefits	
July 1, 2002	<u>31,130,875</u>
June 30, 2003	<u><u>\$ 30,766,170</u></u>

City of Inkster, Michigan

Component Units Statement of Net Assets June 30, 2003

	Economic Development Corporation	Beech Daly Tax Increment Finance Authority	Brownfield Redevelopment Authority	Downtown Development Authority	Totals
Assets					
Cash and investments	\$ 1,217	\$ 97,111	\$ -	\$ 295,877	\$ 394,205
Accounts receivable	-	6,254	-	-	6,254
Due from primary government	-	4,425	-	3,623	8,048
Total assets	<u>1,217</u>	<u>107,790</u>	<u>-</u>	<u>299,500</u>	<u>408,507</u>
Liabilities					
Accounts payable	-	-	-	6,546	6,546
Due to primary government	-	-	52,519	-	52,519
Long-term debt	-	3,339,560	-	-	3,339,560
Total liabilities	<u>-</u>	<u>3,339,560</u>	<u>52,519</u>	<u>6,546</u>	<u>3,398,625</u>
Net Assets - Unrestricted	<u><u>\$ 1,217</u></u>	<u><u>\$ (3,231,770)</u></u>	<u><u>\$ (52,519)</u></u>	<u><u>\$ 292,954</u></u>	<u><u>\$ (2,990,118)</u></u>

City of Inkster, Michigan

	Expenses	Program Revenues		
		Charges for	Operating	Capital Grants
		Services	Grants and	and
			Contributions	Contributions
Economic Development Corporation	\$ -	\$ -	\$ -	\$ -
Beech Daly Tax Increment Finance Authority	183,317	-	-	-
Brownfield Tax Increment Finance Authority	52,519	-	-	-
Downtown Development Authority	174,471	-	-	-
Total governmental activities	<u>\$ 410,307</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

Property taxes

Interest

Total general revenues

Change in Net Assets (Deficit)

Net Assets (Deficit) - July 1, 2003

Net Assets (Deficit) - June 30, 2003

**Component Units
Statement of Activities
Year Ended June 30, 2003**

Net (Expense) Revenue and Changes in Net Assets				
Economic Development Corporation	Beech Daly Tax Increment Finance Authority	Brownfield Redevelopment Authority	Downtown Development Authority	Total
\$ -	\$ -	\$ -	\$ -	\$ -
-	(183,317)	-	-	(183,317)
-	-	(52,519)	-	(52,519)
-	-	-	(174,471)	(174,471)
-	(183,317)	(52,519)	(174,471)	(410,307)
-	465,536	-	140,748	606,284
13	1,244	-	3,755	5,012
13	466,780	-	144,503	611,296
13	283,463	(52,519)	(29,968)	200,989
1,204	(3,515,233)	-	322,922	(3,191,107)
<u>\$ 1,217</u>	<u>\$ (3,231,770)</u>	<u>\$ (52,519)</u>	<u>\$ 292,954</u>	<u>\$ (2,990,118)</u>

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Inkster (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Inkster:

Reporting Entity

The City of Inkster is governed by an elected mayor and six-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

The Inkster Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's buildings.

The following component units are reported within the component units column in the combined financial statements. They are reported in a separate column to emphasize that they are legally separate from the City.

- a. The Economic Development Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Corporation's governing body, which consists of 11 individuals, is selected by the City Council.
- b. The Beech Daly Tax Increment Finance Authority was created to correct and prevent deterioration in the TIFA district, encourage historical preservation, and to promote economic growth within the district. The TIFA's governing body, which consists of 13 individuals, is selected by the City Council.
- c. The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of nine individuals, is selected by the City Council.

Note I - Summary of Significant Accounting Policies (Continued)

- d. The Brownfield Redevelopment Authority was created to revert tax-reverted and condemned properties into new residential housing. The Authority's governing, which consists of not less than five individuals, is selected by the City Council.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual Enterprise Fund are reported as separate columns in the fund financial statements.

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Major revenue types for which receivables are recorded on the current accounting period's balance sheet include the property taxes and State-shared revenue. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following major governmental funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Major Streets Fund is a Special Revenue Fund that accounts for revenue received from gasoline tax through the State of Michigan under ACT 51. Expenditures of this fund include the maintenance of major streets, as well as improvement of roadways and related financing expenditures.

Note I - Summary of Significant Accounting Policies (Continued)

- The Local Streets Fund is a Special Revenue Fund that accounts for revenue received from gasoline tax through the State of Michigan under ACT 51. Expenditures of this fund include the maintenance of local streets, as well as improvement of roadways and related financing expenditures.

The City reports the following major proprietary fund:

- The Water and Sewer Fund is the City's only major proprietary fund. It accounts for the activities of the water distribution system and sewage collection system.

Additionally, the City reports the following fund types:

- The Internal Service Fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. The City's only Internal Service Fund is the Garage Fund, which is used to account for the City's vehicles and other machinery.
- Special Revenue Funds account for the revenues and expenditures related to drug enforcement and traffic immobilization activities and Community Development Block Grant and other miscellaneous grant activity.
- The Debt Service Fund accounts for payments of principal, interest, and other related expenses in connection with the building authority long-term debt. Resources of this fund are provided by a specific property levy.
- Capital Projects Funds account for the development and improvement of capital facilities and sidewalks other than those financed by the operations of a proprietary fund.
- Pension Trust Funds account for the activities of the police and fire employees' retirement system and general government employees' retirement system, which accumulate resources for pension benefit payments to qualified employees.
- The Agency Fund is used to account for assets held by the City as an agent for individuals, organizations, other governments, or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Note 1 - Summary of Significant Accounting Policies (Continued)

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

The effect of interfund activity has been eliminated from the government-wide financial statements. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary fund relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed. The City of Inkster's 2002 tax is levied and collectible on July 1, 2002, and is recognized as revenue in the year ended June 30, 2003, when the proceeds of the levy are budgeted and available for the financing of operations.

Note 1 - Summary of Significant Accounting Policies (Continued)

The 2002 taxable valuation of the City totaled approximately \$276 million (a portion of which is abated and a portion of which is captured by the TIFA and DDA), on which taxes levied consisted of 19.0244 mills for operating purposes, 2.8536 mills for rubbish collection services, and 5.5495 mills for debt service. This resulted in approximately \$5.0 million for operating, approximately \$750,000 for rubbish collection services, and approximately \$1.5 million for debt service. These amounts are recognized in the respective General Fund, Enterprise Fund, and Debt Service Fund financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Investments - Investments are recorded at fair value. Securities traded on a national exchange are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair value. See Note 3 additional investment information.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Allowance for Doubtful Accounts - All water and sewer and property tax receivables are shown net of allowances for doubtful accounts. The allowance for uncollectible water billings in the Utility Fund is \$554,000 at June 30, 2003. The allowance for uncollectible taxes in the General Fund is approximately \$233,000 at June 30, 2003.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Note 1 - Summary of Significant Accounting Policies (Continued)

Restricted Assets - The revenue bonds of the Enterprise Funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets, as well as amounts on deposit at the county being held for the construction or debt service of the City of Inkster's water and sewer lines. The unspent bond proceeds in the Local Streets Fund are required to be set aside for local street construction. These amounts have been classified as restricted assets.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	15 to 30 years
Water and sewer systems	50 to 75 years
Buildings and building improvements	40 to 50 years
Vehicles	3 to 10 years
Office furnishings	7 to 10 years
Other tools and equipment	7 to 10 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Property Tax Chargebacks - The property tax chargebacks represent real property tax collected from the county tax revolving fund that is estimated to be uncollectible when the related parcels are later sold in land sales. The balance at June 30, 2003 consists of those amounts estimated to be charged back to the City in the years after June 30, 2003.

Note 1 - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Shortfall at July 1, 2002		\$	(46,326)
Current year building permit revenue			171,387
Related expenses:			
Direct costs	\$	196,450	
Estimated indirect costs		<u>42,432</u>	
Total construction code expenses			<u>238,882</u>
Cumulative shortfall at June 30, 2003		\$	<u>(113,821)</u>

Noncompliance with Legal or Contractual Provisions - During the year, the City did not consistently remit tax payments to other governmental units in a timely manner. There were instances noted where tax remittances were made only once during the month.

Fund Deficits - The Beech Daly Tax Increment Finance Authority reported a negative balance of unrestricted net assets at June 30, 2003. However, the modified accrual unreserved fund balance of its General Fund is \$107,790. Therefore, this is not considered a fund deficit. In addition, the Brownfield Redevelopment Authority reported a negative balance of unrestricted net assets, which is consistent with its unreserved fund deficit. Accordingly, the Brownfield Redevelopment Authority intends to prepare a deficit elimination plan and place it on file with the State.

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated two banks for the deposit of Local Unit funds. The investment policy adopted by the City in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs for the City's funds. The City's deposits and investment policy are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash and cash equivalents	\$ 5,968,533	\$ 1,279,060	\$ 777,474	\$ 8,025,067	\$ 394,205
Investments	-	-	30,516,928	30,516,928	-
Restricted assets	<u>4,661,047</u>	<u>-</u>	<u>-</u>	<u>4,661,047</u>	<u>-</u>
Total	<u>\$ 10,629,580</u>	<u>\$ 1,279,060</u>	<u>\$ 31,294,402</u>	<u>\$ 43,203,042</u>	<u>\$ 394,205</u>

The breakdown between deposits and investments for the City is as follows:

	Primary Government	Component Units
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 2,016,404	\$ -
Investments in securities, mutual funds, and similar vehicles	41,185,188	394,205
Petty cash or cash on hand	<u>1,450</u>	<u>-</u>
Total	<u>\$ 43,203,042</u>	<u>\$ 394,205</u>

Note 3 - Deposits and Investments (Continued)

The bank balance of the City's deposits is \$2,258,291, of which \$100,000 is covered by federal depository insurance. The component units' deposits had a bank balance of \$394,000, of which \$200,000 was covered by federal depository insurance. Investments are categorized into these three categories of credit risk:

Category 1 - Insured or registered, or securities held by the City or its agent in the City's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

At year end, the City's investment balances were categorized as follows:

	Category			Reported Amount (Fair Value)
	1	2	3	
Primary government:				
Pension Category 2 assets:				
Corporate bonds	\$ -	\$ 2,383,861	\$ -	\$ 2,383,861
U.S. government securities	-	6,192,341	-	6,192,341
U.S. government agency securities	-	2,442,086	-	2,442,086
Common and preferred stock	-	6,601,497	-	6,601,497
Subtotal	<u>\$ -</u>	<u>\$ 17,619,785</u>	<u>\$ -</u>	<u>17,619,785</u>
Investments not subject to categorization:				
Pension equity mutual funds				5,385,845
Pension guarantee contract pooled fund				7,054,905
Bank investment pools				9,555,383
MBIA Michigan CLASS				1,112,877
Pension bank investment pool and pooled investment funds				<u>456,393</u>
Total primary government				<u>\$ 41,185,188</u>
Component units - Bank investment pool funds				<u>\$ 394,205</u>

Note 3 - Deposits and Investments (Continued)

Investments not subject to categorization are not evidenced by securities that exist in physical or book entry form. The bank investment pools, guaranteed contract and investment pooled funds, and mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The mutual funds and non-bank pooled funds are registered with the SEC. The bank investment pools are regulated by the Michigan Banking Act. Investments under the interlocal agreement (MBIA-CLASS) are regulated by the Urban Cooperation Act. The fair value of the position in the bank investment pools and interlocal agreement pools is the same as the value of the pool shares.

Component Units

The cash and cash equivalents of the City's component units consist of bank investment pools and Michigan MBIA-Class accounts of \$394,205 at June 30, 2003. These investments are not covered by federal depository insurance.

Note 4 - Receivables and Related Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Receivable from Component Unit - TIFA*	\$ 1,559,560	\$ -
Grants received prior to meeting all eligibility requirements	-	170,830
Total	<u>\$ 1,559,560</u>	<u>\$ 170,830</u>

- * The City issued bonds on behalf of the TIFA, which are discussed in detail in Note 7. The TIFA has committed to repay the 75 percent of the bonds' debt service, including past payments made by the City which were in excess of the TIFA's ability to repay at that time. The City's Major Street Fund has recorded this receivable at an amount equal to the 75 percent of the bonds' principal payments plus \$93,310 for the past payments made by the City. The interest portion of the bond payments will be recorded when received. The TIFA's current and future commitment to the repayment of these bonds is limited to its ability to capture sufficient revenue.

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities were as follows:

	Balance July 1, 2002	Additions	Disposals and Adjustments	Balance June 30, 2003
Governmental Activities				
Capital assets not being depreciated -				
Land	\$ 304,360	\$ -	\$ -	\$ 304,360
Capital assets being depreciated:				
Roads and sidewalks	8,245,737	513,546	-	8,759,283
Buildings and improvements	7,133,934	174,887	-	7,308,821
Vehicles	4,212,650	67,840	51,751	4,228,739
Furniture and equipment	2,967,111	289,324	-	3,256,435
Subtotal	22,559,432	1,045,597	51,751	23,553,278
Accumulated depreciation:				
Roads and sidewalks	1,990,563	298,703	-	2,289,266
Buildings and improvements	3,493,402	174,673	-	3,668,075
Vehicles	2,889,187	338,814	51,751	3,176,250
Furniture and equipment	979,574	308,030	-	1,287,604
Subtotal	9,352,726	1,120,220	51,751	10,421,195
Net capital assets being depreciated	13,206,706	(74,623)	-	13,132,083
Net capital assets	\$ 13,511,066	\$ (74,623)	\$ -	\$ 13,436,443

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2002	Additions	Disposals and Adjustments	Balance June 30, 2003
Capital assets not being depreciated:				
Land	\$ 2,745	\$ -	\$ -	\$ 2,745
Construction in progress	37,911	95,512	127,559	5,864
Subtotal	40,656	95,512	127,559	8,609
Capital assets being depreciated:				
Water and sewer distribution systems	36,910,022	178,052	-	37,088,074
Buildings and building improvements	66,444	-	-	66,444
Office furnishings	4,348	-	-	4,348
Other tools and equipment	22,676	-	-	22,676
Subtotal	37,003,490	178,052	-	37,181,542
Accumulated depreciation:				
Water and sewer distribution systems	5,753,719	839,079	-	6,592,798
Buildings and building improvements	66,444	-	-	66,444
Office furnishings	4,348	-	-	4,348
Other tools and equipment	22,676	-	-	22,676
Subtotal	5,847,187	839,079	-	6,686,266
Net capital assets being depreciated	31,156,303	(661,027)	-	30,495,276
Net capital assets	\$ 31,196,959	\$ (565,515)	\$ 127,559	\$ 30,503,885

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 144,008
Public safety	192,719
Public works	44,606
Culture and recreation	101,369
Road infrastructure	298,703
Internal Service Fund depreciation is charged to the various function based on their usage of the asset	338,815
Total governmental activities	\$ 1,120,220
Business-type activities - Water and sewer	\$ 839,079

Note 5 - Capital Assets (Continued)

Construction Commitments - The City of Inkster has active road construction projects at year end related to the 2003 local road bond issue. At year end, the City's construction commitments approximated \$1,700,000.

The City of Inkster, in conjunction with the City of Inkster Brownfield Redevelopment Authority, has entered into an agreement with a development company and its affiliate to that developer to redevelop the Carver Homes area of the city. Under the agreement, the City will acquire, improve, and then sell the project real estate to the developer. The City issued bonds for \$2,000,000 after year end to be used for property acquisition and demolition expenditures. The City is relying on current and future grant monies to fund the related relocation costs. The City will also construct infrastructure improvements in the development, which will be paid for by the anticipated issuance of approximately \$4,600,000 of additional bonded debt. The developer and its affiliate have given the City assurances that future incremental tax captures related to the Carver Homes development will be sufficient to repay the City's debt service costs.

Commitment - During the year ended June 30, 1992, the City negotiated an agreement with the Michigan Department of Natural Resources to ensure compliance with the Clean Water Act. This agreement requires the construction of retention basins and/or the construction of separate sanitary and storm sewer lines to be completed in two phases. Phase one of the project was substantially complete at June 30, 2003 and Phase two is required to be started by 2013 and completed by December 2015. The estimated cost of Phase two is \$30,000,000.

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due to	Fund Due from	Amount
General Fund	Major Street	\$ 20,000
	Local Street	88,688
	Nonmajor governmental funds	<u>419,524</u>
	Total General Fund	528,212
Nonmajor governmental funds	General	263,580
	Nonmajor governmental funds	<u>2,818</u>
	Total nonmajor governmental funds	266,398
Enterprise Fund - Water and Sewer	General Fund	1,038,443
	Internal Service	<u>109,763</u>
	Total Enterprise Funds	<u>1,148,206</u>
	Total	<u>\$ 1,942,816</u>

Interfund Transfers

	Transfers Out		
	Major Streets Fund	Internal Service Funds	Total
Transfers in:			
General Fund	\$ -	\$ 300,000	\$ 300,000
Local Street	<u>275,000</u>	<u>-</u>	<u>275,000</u>
Total	<u>\$ 275,000</u>	<u>\$ 300,000</u>	<u>\$ 575,000</u>

Both transfers were discretionary funds to be used for the benefit of the community.

Note 7 - Long-term Debt

The following is a summary of the primary government debt of the City of Inkster outstanding as of June 30, 2003:

	Interest Rate Ranges	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Due Within One Year
Governmental Activities						
General obligation bonds (For Road and Other Construction):						
Act 175 Motor Vehicle Bonds, Series 1991						
Amount of issue - \$600,000	6.30% -					
Maturing through - 11/2006	6.60%	\$ 295,000	\$ -	\$ (50,000)	\$ 245,000	\$ 55,000
Act 175 Motor Vehicle Bonds, Series 1994*						
Amount of issue - \$2,360,000	6.15% -					
Maturing through - 8/2004	6.25%	300,000	-	(95,000)	205,000	100,000
Act 175 Motor Vehicle Bonds, 2001 Series Refunding Bonds						
Amount of issue - \$1,780,000	2.00% -					
Maturing through - 8/2014	4.625%	1,780,000	-	(30,000)	1,750,000	30,000
Building Authority, 1974 Series - Recreational Complex						
Amount of issue - \$1,900,000						
Maturing through - 4/2004	7.20%	250,000	-	(125,000)	125,000	125,000
General Obligation, Unlimited Tax 2003 Series Local Road Bonds						
Amount of issue - \$5,000,000	2.50% -					
Maturing through - 3/2013	3.625%	-	5,000,000	-	5,000,000	480,000
Total bond obligations		2,625,000	5,000,000	(300,000)	7,325,000	790,000
Other long-term obligations - Installment Notes:						
Sweeper Purchase						
Amount of issue - \$145,000						
Maturing through - 6/2005	4.87%	86,941	-	(27,559)	59,382	28,932
Vactor Truck Purchase						
Amount of issue - \$249,580						
Maturing through - 8/2005	4.98%	194,699	-	(44,973)	149,726	47,436
Total other long-term obligations		281,640	-	(72,532)	209,108	76,368
Total governmental activities		\$ 2,906,640	\$ 5,000,000	\$ (372,532)	\$ 7,534,108	\$ 866,368

* A portion of the 1994 bond issue was defeased by the 2001 series refunding bonds.

Note 7 - Long-term Debt (Continued)

	Interest Rate Ranges	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Due Within One Year
Business-type Activities						
Wayne County Contracts (For Construction of System Improvements):						
Wayne County Sewage Disposal System, 1994						
North Huron Valley System	5.60% -					
Amount of issue - \$556,516						
Maturing through - 5/2009 (Net of \$17,174 of deferred charges at June 30, 2003)	6.00%	\$ 302,782	\$ -	\$ (35,347)	\$ 267,435	\$ 40,284
Wayne County Sewage Disposal System, 1994						
CSO Basin Series B*						
Amount of issue - \$3,500,000						
Maturing through - 5/2004	5.55%	290,000	-	(140,000)	150,000	150,000
Wayne County Sewage Disposal System, 1994						
CSO Basin Series C*						
Amount of issue - \$7,875,000	6.20% -					
Maturing through - 11/2004	7.00%	945,000	-	(280,000)	665,000	305,000
Wayne County Sewage Disposal System, 1999						
CSO Basin Series B Refunding Bonds						
Amount of issue - \$2,730,000	3.75% -					
Maturing through - 11/2015 (Net of \$135,990 of deferred charges at June 30, 2003)	4.80%	2,446,647	-	(12,637)	2,434,010	25,000
Wayne County Sewage Disposal System, 1999						
CSO Basin Series C Refunding Bonds						
Amount of issue - \$6,390,000	3.75% -					
Maturing through - 11/2015 (Net of \$317,312 of deferred charges at June 30, 2003)	4.80%	5,718,842	-	(31,154)	5,687,688	65,000
1994 State Revolving Fund Loan						
Amount of issue - \$2,590,000						
Maturing through - 4/2016	2.00%	1,920,000	-	(120,000)	1,800,000	125,000
Utility System Revenue Bonds (For System Improvements):						
1992 Utility System Revenue Bonds**						
Amount of issue - \$900,000						
Maturing through - 5/2003	6.30%	410,000	-	(410,000)	-	-
2003 Revenue Refunding Bonds						
Amount of issue - \$435,000	2.00% -					
Maturing through - 8/2006	2.30%	-	435,000	-	435,000	-
Total business-type activities		\$ 12,033,271	\$ 435,000	\$ (1,029,138)	\$ 11,439,133	\$ 710,284

* A portion of these bonds was defeased during the year ended June 30, 1999.

** A portion of these bonds was defeased during the year ended June 30, 2003 as described below.

Note 7 - Long-term Debt (Continued)

Component Units	Interest Rate Ranges	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Due Within One Year
Beech Daly Increment Finance Authority: Road Improvement 1994 Series Bonds*						
Amount of issue - \$1,760,000	6.20% -					
Maturing through - 11/2004	7.00%	\$ 185,000	\$ -	\$ (50,000)	\$ 135,000	\$ 60,000
2001 Series Refunding Bond						
Amount of issue - \$1,655,000	2.00% -					
Maturing through - 11/2019	5.00%	1,655,000	-	(10,000)	1,645,000	25,000
Due to the City of Inkster**						
75% of City of Inkster 1994 Series Act 175 Motor Vehicle Highway Bonds						
Original amount of obligation - \$1,770,000 (75% of \$2,360,000)	6.15% -					
Maturing through - 8/2004	6.25%	225,000	-	(71,250)	153,750	75,000
75% of City of Inkster 2001 Series Act 175 Motor Vehicle Highway Refunding Bonds						
Original amount of obligation - \$1,335,000 (75% of \$1,780,000)	2.00% -					
Maturing through - 8/2014	4.625%	1,335,000	-	(22,500)	1,312,500	22,500
Reimbursement Obligation - Historical Portion:						
Payable when funds are available	-	207,380	-	(114,070)	93,310	-
Total component units		<u>\$ 3,607,380</u>	<u>\$ -</u>	<u>\$ (267,820)</u>	<u>\$ 3,339,560</u>	<u>\$ 182,500</u>

* A portion of the 1994 bonds was defeased by the 2001 series refunding bonds.

** Payable to the City only from the TIFA revenue legally available and in excess of the amounts that are required to pay the debt service of the TIFA bonds

Under certain circumstances, the issuance of future Enterprise Fund bonds is restricted unless "net revenues" meets minimum bond requirements.

The City has pledged its full faith and credit for the bond obligations of the Beech Daly Tax Increment Finance Authority, a component unit.

The City anticipates that 75 percent of the debt service requirements for two of the Act 175 Motor Vehicle Highway bonds (with an outstanding balance of \$1,466,250 at June 30, 2003) will ultimately be provided by the Tax Increment Finance Authority (TIFA), a component unit. It is also anticipated that the TIFA will eventually repay the City \$93,310, representing the net unreimbursed installment payments made by the City through June 30, 2003 related to these obligations.

The TIFA's payment of the above-described obligations is limited to the amount of TIFA revenue legally available and in excess of the amounts which are required to pay the debt service of the outstanding TIFA bonds, if any. Historically, annual TIFA revenue has, in varying amounts, exceeded the total annual debt service payments for the outstanding TIFA bonds.

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above governmental, business-type, and component unit bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities			Component Units		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2004	\$ 866,367	\$ 305,222	\$ 1,171,589	\$ 770,640	\$ 494,401	\$ 1,265,041	\$ 182,500	\$ 136,568	\$ 319,068
2005	725,249	220,649	945,898	683,997	450,459	1,134,456	201,250	126,283	327,533
2006	722,492	195,329	917,821	876,981	409,424	1,286,405	218,750	117,488	336,238
2007	680,000	172,130	852,130	899,965	373,187	1,273,152	218,750	110,379	329,129
2008	635,000	152,178	787,178	831,085	338,987	1,170,072	226,250	102,475	328,725
2009 - 2013	3,510,000	423,336	3,933,336	4,317,677	1,154,409	5,472,086	1,192,500	371,422	1,563,922
2014 - 2018	395,000	18,384	413,384	3,058,788	211,843	3,270,631	811,250	124,099	935,349
2019 - 2020	-	-	-	-	-	-	288,310	9,625	297,935
Total	\$ 7,534,108	\$ 1,487,228	\$ 9,021,336	\$ 11,439,133	\$ 3,432,710	\$ 14,871,843	\$ 3,339,560	\$ 1,098,339	\$ 4,437,899

Defeased Debt - During the year, the City issued \$435,000 in revenue bonds with interest rates ranging between 2.0 percent and 2.3 percent. The proceeds of these bonds were used to advance refund \$410,000 of outstanding 1992 Utility System Revenue Bonds with interest rates ranging between 6.3 percent and 6.5 percent. The net proceeds of \$419,954 (after payment of \$15,046 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the City's financial records. The advance refunding reduced total debt service payments over the next five years by approximately \$22,000, which represents an economic gain of approximately \$20,000.

In prior years, the City defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2003, \$9,590,000 of bonds outstanding are considered defeased.

In prior years, the TIFA defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2003, \$1,455,000 of bonds outstanding are considered defeased.

Note 8 - Restricted Assets

Governmental Activities - The \$4,661,047 of restricted assets at June 30, 2003 are unspent cash proceeds from the 2003 General Obligation Bonds restricted for local road construction.

Business-type Activities - Restricted assets at June 30, 2003 consist of assets held at Wayne County restricted for the following purposes:

City's portion of Rouge River National Wet Weather Demonstration Basin Construction	\$ 885,502
City's portion of North Huron Valley/Rouge Valley Sewer System Combined Sewer Overflow Basin:	
Construction	20,149
Equipment replacement	44,100
	<hr/>
Total restricted assets	<u>\$ 949,751</u>

The above assets result from the issuance of debt and, therefore, net assets have not been restricted. Net assets of \$118,118 have been restricted, however, pursuant to an Environmental Protection Agency (EPA) requirement for certain required construction not related to the matters listed above. No specific assets have been restricted to this EPA-mandated reserve.

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for all claims except workers' compensation. In addition, the City retains risk for general liability claims, as a result of significant deductible levels. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

On November 12, 2002, the City was notified that its insurance carrier intended to deny the City coverage related to the class action lawsuit disclosed in Note 10. The City intends to contest this denial of coverage. If the City is successful in maintaining coverage in this instance, the estimated liability recorded for claims at June 30, 2003 would be reduced by approximately \$1,200,000.

The City is uninsured for workers' compensation claims outside of certain limits. The City has purchased insurance for specific occurrences in excess of \$300,000 and occurring within the insurance policy periods.

Note 9 - Risk Management (Continued)

The City estimates the liability for workers' compensation claims and general liability deductibles that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. Changes in the estimated liability for the years ended June 30 are as follows:

	2003	2002
Estimated liability - Beginning of year	\$ 3,363,851	\$ 2,815,235
Estimated claims incurred, including changes in estimates - Net	579,037	1,717,152
Claim payments	(579,037)	(1,168,536)
Estimated liability - End of year	<u>\$ 3,363,851</u>	<u>\$ 3,363,851</u>

Note 10 - Contingencies

The City is a defendant in several lawsuits and asserted claims, including one class action lawsuit. While an estimate of the liability, net of available insurance coverage, related to these matters has been recorded, management and legal counsel believe the City's ultimate exposure with respect to these actions is not currently determinable. Hence, it is reasonably possible that the ultimate costs, if any, related to the resolution of these matters could differ materially from the amounts provided.

Note 11 - Joint Ventures

The City of Inkster, Michigan is a member of the Central Wayne County Sanitation Authority, which provides incineration services to the residents of Inkster, Dearborn Heights, Garden City, Wayne, and Westland. The participating communities provide annual funding for its operations. During the current year, the City contributed approximately \$834,000 for its operations. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Sanitation Authority can be obtained from the City Clerk's office.

Note 11 - Joint Ventures (Continued)

The City is a member of the Nankin Transit Commission, which provides transportation services for the elderly and the handicapped residents of Inkster, Garden City, Wayne, and Westland. The City appoints two members to the joint venture's governing body, which approves the annual budget. During the current year, the City contributed \$25,000 for its operations. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Nankin Transit Commission can be obtained from the City Clerk's office.

Note 12 - Defined Benefit Pension Plan

Plan Descriptions

The City contributes to the Police and Fire Retirement System and to the General Employee Retirement System, which are administrators of single-employer public employees' retirement systems that generally cover all full-time police and fire employees and general employees of the City, respectively. The systems provide retirement, disability, and death benefits to plan members and their beneficiaries.

Police and Fire Retirement System

At July 1, 2002, the date of the most recent actuarial valuation, membership consisted of 47 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 86 current active employees. The plan does not issue a separate financial report.

Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 6 percent of wages. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Note 12 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost - For the year ended June 30, 2003, the City's annual pension cost of \$464,781 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at July 1, 2001 using the individual entry age actuarial cost method. Significant actuarial assumptions used include (a) a 7.25 percent investment rate of return, (b) projected salary increases of 5 percent per year, and (c) no cost of living adjustments. Both (a) and (b) include an inflation component of 5 percent. The actuarial value of assets was determined based on a five-year smoothed market. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis. The remaining amortization period is 30 years.

The three-year trend information for the plan is as follows:

	Fiscal Year Ended December 31		
	2003	2002	2001
Police and Fire Retirement System:			
Annual pension costs (APC)	\$ 464,781	\$ 353,356	\$ 290,625
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

General Employees' Retirement System

At July 1, 2002, the date of the most recent actuarial valuation, membership consisted of 54 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 58 current active employees. The plan does not issue a separate financial report.

Contributions - Plan members' contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 5 percent of wages. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Note 12 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost - For the year ended June 30, 2003, the City's actuarially determined contribution for the plan was \$327,206. The City actually contributed and expensed \$224,954 for its current year contribution. The difference between the required and actual contribution of \$102,252 has been recorded as a net pension obligation in the government-wide statement of net assets. The annual required contribution was determined as part of an actuarial valuation at July 1, 2002 using the aggregate actuarial cost method. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return, (b) projected salary increases of 4 percent per year, and (c) no cost of living adjustments. Both (a) and (b) include an inflation component of 3 percent. The actuarial value of assets was based on stated contract value for funds invested in the general accounts of an insurance company and market value for funds invested in insurance company separate accounts.

The three-year trend information for the plan is as follows:

	Fiscal Year Ended December 31		
	2003	2002	2001
General Employees' Retirement System:			
Annual pension costs (APC)	\$ 327,206	\$ 213,736	\$ 201,310
Percentage of APC contributed	69%	100%	100%
Net pension obligation	\$ 102,252	\$ -	\$ -

Note 13 - New Reporting Model

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Significant changes in the statements include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the City's activities, including infrastructure (roads, bridges, etc.)
- Capital assets at July 1, 2003 previously reported in the General Fixed Assets Account Group have been adjusted by approximately \$10,800,000 to reflect the modification of the historical cost of the City's capital assets at that date.
- A change in the fund financial statements to focus on the major funds

Note 13 - New Reporting Model (Continued)

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The City has elected to implement both the general provisions of the statement and the retroactive reporting of infrastructure in the current year.

Note 14 - Postemployment Benefits

The City provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Fifty-eight retirees were eligible at June 30, 2003. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with a 50 percent contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due, which totaled approximately \$266,000 during the year.

Required Supplemental Information

City of Inkster, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2003

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 6,655,000	\$ 6,655,000	\$ 6,619,040	\$ (35,960)
Licenses and permits	391,700	249,000	196,324	(52,676)
Federal grants	-	26,000	26,368	368
State-shared revenues and grants	5,020,000	4,964,200	4,903,802	(60,398)
Charges for services	1,846,500	1,637,200	1,744,623	107,423
Interest	200,000	75,000	61,885	(13,115)
Administrative charges and other revenue	1,537,000	1,516,000	1,421,595	(94,405)
Transfer from other funds	300,000	300,000	300,000	-
Total revenue	15,950,200	15,422,400	15,273,637	(148,763)
Expenditures				
General government	2,610,619	2,454,496	2,440,591	13,905
Public safety	7,422,230	7,205,804	7,165,655	40,149
Highways, streets, and public works	2,844,368	2,712,519	2,670,925	41,594
Cultural and recreation	899,825	865,599	753,686	111,913
Nondepartmental	3,133,825	4,242,898	3,832,051	410,847
Total expenditures	16,910,867	17,481,316	16,862,908	618,408
Excess of Expenditures Over Revenue	(960,667)	(2,058,916)	(1,589,271)	469,645
Fund Balances - July 1, 2002	2,702,788	2,702,788	2,702,788	-
Fund Balances - June 30, 2003	<u>\$ 1,742,121</u>	<u>\$ 643,872</u>	<u>\$ 1,113,517</u>	<u>\$ 469,645</u>

City of Inkster, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major and Local Streets Funds Year Ended June 30, 2003

	Major Streets Fund			Variance with
	Original Budget	Amended Budget	Actual	Amended Budget
Revenue				
State-shared revenues and grants	\$ 1,110,000	\$ 1,110,000	\$ 1,116,304	\$ 6,304
Charges for services	270,000	270,000	270,000	-
Interest	20,000	10,000	23,382	13,382
Total revenue	1,400,000	1,390,000	1,409,686	19,686
Expenditures				
Highways, streets, and public works	1,919,168	709,663	568,423	141,240
Debt service	275,878	275,878	276,076	(198)
Transfer to other funds	275,000	275,000	275,000	-
Total expenditures	2,470,046	1,260,541	1,119,499	141,042
Excess of Revenue Over (Under) Expenditures	(1,070,046)	129,459	290,187	160,728
Fund Balances - July 1, 2002	2,082,488	2,082,488	2,082,488	-
Fund Balances - June 30, 2003	<u>\$ 1,012,442</u>	<u>\$ 2,211,947</u>	<u>\$ 2,372,675</u>	<u>\$ -</u>

	Local Streets Fund			Variance with
	Original Budget	Amended Budget	Actual	Amended Budget
Revenue				
State-shared revenues and grants	\$ 470,000	\$ 470,000	\$ 473,061	\$ 3,061
Interest	6,000	4,000	8,532	4,532
Issuance of debt	-	-	5,000,000	5,000,000
Transfer from other funds	550,000	575,000	275,000	(300,000)
Total revenue	1,026,000	1,049,000	5,756,593	4,707,593
Expenditures - Highways, streets, and public works	1,025,740	975,740	1,321,876	(346,136)
Excess of Revenue Over Expenditures	260	73,260	4,434,717	4,361,457
Fund Balances - July 1, 2002	367,035	367,035	367,035	-
Fund Balances - June 30, 2003	<u>\$ 367,295</u>	<u>\$ 440,295</u>	<u>\$ 4,801,752</u>	<u>\$ -</u>

City of Inkster, Michigan

Required Supplemental Information Pension Systems Schedules of Funding Progress June 30, 2003

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Overfunded AAL (OAAL) (a-b)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	OAAL as a Percentage of Covered Payroll
<u>General Employees' Retirement System</u>						
7/1/98	\$ 6,717,000	\$ 6,717,000	\$ -	100.0	\$ 1,513,000	-
7/1/99*						-
7/1/00	7,393,000	7,393,000	-	100.0	1,838,000	-
7/1/01*						
7/1/02	7,062,000	7,062,000	-	100.0	1,949,000	-
7/1/03*						
<u>Police and Fire Retirement System</u>						
7/1/98	22,962,000	18,249,000	4,713,000	125.8	3,136,000	150.3
7/1/99	24,559,000	20,047,000	4,512,000	122.5	3,456,000	130.6
7/1/00	26,426,000	22,448,000	3,978,000	117.7	3,805,000	104.5
7/1/01	27,862,000	24,224,000	3,638,000	115.0	4,447,000	81.8
7/1/02	28,489,000	24,758,000	3,731,000	115.0	4,235,000	88.1
7/1/03*						

* A valuation was not done for the years indicated

City of Inkster, Michigan

Required Supplemental Information Pension Systems Schedules of Employer Contributions June 30, 2003

The schedule of funding progress is as follows:

General Employees' Retirement System

Fiscal Year Ended June 30	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
1998	7/1/96	\$ 137,239	100.0
1999	7/1/98	144,726	100.0
2000	7/1/98	106,710	100.0
2001	7/1/00	201,310	100.0
2002	7/1/00	213,736	100.0
2003	7/1/02	327,206	69.0

Police and Fire Retirement System

Fiscal Year Ended June 30	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
1998	7/1/96	\$ 193,797	100.0
1999	7/1/97	175,642	100.0
2000	7/1/98	242,903	100.0
2001	7/1/99	290,625	100.0
2002	7/1/00	353,356	100.0
2003	7/1/01	464,781	100.0

* The City's policy is to calculate a percentage of payroll, at which it will make its employer plan contributions such that the resultant contribution amount is within the range of the alternatives presented in the actuarial valuations. The contribution amounts presented represent the actual contributions recorded by the City in the respective fiscal years.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of July 1, 2002, the latest actuarial valuation, follows:

General Employees' Retirement System

Actuarial cost method	Aggregate
Amortization method	N/A
Amortization period (perpetual)	N/A
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return**	7.5%
Projected salary increases*	4%
*Includes inflation at	3%
Cost of living adjustments	None

Police and Fire Retirement System

Actuarial cost method	Individual entry age
Amortization method	Level percent of payroll, open
Amortization period (perpetual)	30 years
Asset valuation method	Five-year smoothed market
Actuarial assumptions:	
Investment rate of return**	7.25%
Projected salary increases**	5%
**Includes inflation at	5%
Cost of living adjustments	None

City of Inkster, Michigan

Note to Required Supplemental Information June 30, 2003

Budgetary Information - The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are approved by the City Council. The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the City is the department level. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2003 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, Special Revenue Funds, and Debt Service Fund, with the following exceptions:

- Operating transfers have been included in the “revenue” and “expenditures” categories, rather than as “other financing sources (uses).”
- Financing proceeds related to debt issuance have been included in the “revenue” category rather than as “other financing sources”.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City of Inkster incurred expenditures that were in excess of the amounts budgeted, as follows:

	<u>Budget</u>	<u>Actual</u>
Local Street Fund - Highways, streets, and public works expenditures	<u>\$ 975,740</u>	<u>\$ 1,321,876</u>

Other Supplemental Information

City of Inkster, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2003

	Nonmajor Special Revenue Funds			Nonmajor Capital Projects Funds		
			Nonmajor Debt Service Fund - Building Authority	Capital Improvements	Sidewalk Revolving	Total Nonmajor Governmental Funds
	Grants	Drug Law Enforcement				
Assets						
Cash and investments	\$ 95,567	\$ 58,452	\$ -	\$ 140,721	\$ 15,911	\$ 310,651
Due from other funds	83,194	183,139	65	-	-	266,398
Due from other governmental units	243,356	-	-	-	-	243,356
Total assets	<u>\$ 422,117</u>	<u>\$ 241,591</u>	<u>\$ 65</u>	<u>\$ 140,721</u>	<u>\$ 15,911</u>	<u>\$ 820,405</u>
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 55,270	\$ 1,840	\$ -	\$ 274	\$ 550	\$ 57,934
Due to other funds	292,017	-	-	130,325	-	422,342
Deferred revenue	74,830	-	-	-	-	74,830
Total liabilities	422,117	1,840	-	130,599	550	555,106
Fund Balances - Unreserved	-	239,751	65	10,122	15,361	265,299
Total liabilities and fund balances	<u>\$ 422,117</u>	<u>\$ 241,591</u>	<u>\$ 65</u>	<u>\$ 140,721</u>	<u>\$ 15,911</u>	<u>\$ 820,405</u>

City of Inkster, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended June 30, 2003

	Nonmajor Special Revenue Funds			Nonmajor Capital Projects Funds		
			Nonmajor Debt Service Fund -			Total Nonmajor
	Grants	Drug Law Enforcement	Building Authority	Capital Improvements	Sidewalk Revolving	Governmental Funds
Revenue						
Property taxes	\$ -	\$ -	\$ 143,065	\$ -	\$ -	\$ 143,065
Federal grants	655,298	-	-	-	-	655,298
State revenue and grants	38,978	-	-	-	-	38,978
Interest income	-	2,758	-	1,196	172	4,126
Other	-	156,429	-	91,213	-	247,642
Total revenue	694,276	159,187	143,065	92,409	172	1,089,109
Expenditures						
Public safety	-	101,477	-	-	-	101,477
Grant expenditures	694,276	-	-	-	-	694,276
Debt service	-	-	143,000	-	-	143,000
Other	-	-	-	162,113	-	162,113
Total expenditures	694,276	101,477	143,000	162,113	-	1,100,866
Excess of Revenue Over (Under)						
Expenditures	-	57,710	65	(69,704)	172	(11,757)
Fund Balances - July 1, 2002	-	182,041	-	79,826	15,189	277,056
Fund Balances - June 30, 2003	\$ -	\$ 239,751	\$ 65	\$ 10,122	\$ 15,361	\$ 265,299

City of Inkster, Michigan

Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds June 30, 2002

	Pension Trust Funds		
	General		
	Employees'	Police and Fire	
	Retirement	Retirement	
	System	System	Totals
Assets			
Investments:			
Corporate bonds	\$ -	\$ 2,383,861	\$ 2,383,861
U.S. government securities	-	6,192,341	6,192,341
U.S. government agency securities	-	2,442,086	2,442,086
Common and preferred stock	-	6,601,497	6,601,497
Pension equity mutual funds	-	5,385,845	5,385,845
Pension guarantee contract			
pooled fund	7,054,905	-	7,054,905
Bank investment pools and			
pooled investent fund	249,327	207,066	456,393
Receivables	24,309	224,933	249,242
Total assets	<u>\$ 7,328,541</u>	<u>\$ 23,437,629</u>	<u>\$ 30,766,170</u>
Net Assets - Held in trust for			
pension and other employee			
benefits	<u>\$ 7,328,541</u>	<u>\$ 23,437,629</u>	<u>\$ 30,766,170</u>

City of Inkster, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds Year Ended June 30, 2003

	General Employees' Retirement System	Police and Fire Retirement System	Totals
Additions			
Investment income:			
Interest and dividends	\$ 322,814	\$ 637,029	\$ 959,843
Net increase (decrease) in fair value of investments	<u>195,042</u>	<u>(457,030)</u>	<u>(261,988)</u>
Net investment income	517,856	179,999	697,855
Contributions:			
Employer	224,954	464,781	689,735
Employee	<u>102,252</u>	<u>258,819</u>	<u>361,071</u>
Total additions	845,062	903,599	1,748,661
Deductions			
Benefit payments	518,485	1,314,366	1,832,851
Refunds of contributions	11,342	140,355	151,697
Administrative expenses	<u>49,869</u>	<u>78,949</u>	<u>128,818</u>
Total deductions	<u>579,696</u>	<u>1,533,670</u>	<u>2,113,366</u>
Net Increase (Decrease)	265,366	(630,071)	(364,705)
Net Assets Held in Trust for Pension Benefits			
Beginning of year	<u>7,063,175</u>	<u>24,067,700</u>	<u>31,130,875</u>
End of year	<u>\$ 7,328,541</u>	<u>\$ 23,437,629</u>	<u>\$ 30,766,170</u>